



February 15, 2013

M.R. Grant, CPA  
6333 Wilshire Blvd. Suite 511  
Los Angeles, CA 90048

Re: Downtown Center Business Improvement District

Dear Ms. Grant,

Thank you for providing us with a working draft of the report covering the audit periods from January 1, 2008 through November 30, 2012. This letter offers some updates and correction to the draft report, which need to be reflected in the final report. We note that many of the required corrections arise from an apparent breakdown in communication between your company and the DCBID. At the end of your fieldwork, your auditors provided me with an oral list of open items, but failed to provide any written request for additional information or any deadlines by which such additional information was required. Consequently, we request that the information, updates and corrections provided below are incorporated and addressed in the final draft of the report.

The following will address each item to clear any exceptions noted in the draft report:

Item 2 – Program and Budget Reports. Attached is a copy of the 2008 first quarter activity report. There was no 2008 planning report since (according to Rick Scott, Special Assessments Section) an approved Management Plan constitutes the planning report for the first year of each five year contract. Consequently, no exception to Item 2 exists, and the draft report should be amended to reflect this fact.

Item 3 – Financial Statements. We contacted Rick Scott at the City Clerk's Office and received permission to file late due to extenuating circumstances. Both years Audited Financial Statements were submitted within the respective extension periods granted to us by the City Clerk's Office. Consequently, no exception to Item 3 exists, and the draft report should be amended to reflect this fact.

Item 4 – Liaison with Community. Your letter inaccurately states that the DCBID "did not have Public Meetings for 2008, 2009 and 2010." However, as is demonstrated by the attached presentations and documentation for such public meetings, public meetings were held in each of 2008, 2009 and 2010. Consequently, no exception to Item 4 exists, and the draft report should be amended to reflect this fact.

Item 5 – Budget. The original Management Plan for the DCBID operating period was created in 2007. However, through the DCBID Board of Directors annual review and approval processes, the Board of

Directors approved the annual revenue and expenditure budget, based on then-current actual assessment revenue, and then allocated funds to be rolled over from one year to the next. Such revised and approved budgets were then submitted to the City Clerk's Office. Consequently, no exception to Item 5 exists, and the draft report should be amended to reflect this fact.

Item 7 – Retention of Records, Audit and Reports. Attached are copies of the 2009 DE6's for all 4 quarters as well as the 2010 DE6 for the 4<sup>th</sup> quarter. Consequently, no exception to Item 7 exists, and the draft report should be amended to reflect this fact.

Item 8 – Permits. Attached is a copy of the Business License for the DCBID. Consequently, no exception to Item 8 exists, and the draft report should be amended to reflect this fact.

Item 9 – Service Plan. As stated earlier, due to changes and the needs of the district, no "Special Projects" were needed in 2009, 2010 and 2011. Instead, pursuant to the DCBID Board of Directors' direction, funds were allocated to increase the Safety and Maintenance budgets, and such allocations were communicated in our annual budget submittal to the City Clerk's Office. Consequently, no exception to Item 9 exists, and the draft report should be amended to reflect this fact.

Item 10 – Other Requirements. The Equipment and Space Sharing Agreement with the Central City Association is in the process of being renewed for the renewed BID five-year period, beginning in 2013. The expiring agreement was left in place because the DCBID was ending its five-year term and was in the middle of the renewal process. Now that BID renewal process has been completed, the Equipment and Space Sharing Agreement with the Central City Association shall be rented promptly. Consequently, no exception to Item 10 exists, and the draft report should be amended to reflect this fact.

Item 11 – Corporate Insurance coverage. The City required Accord Forms #133 & 146 are provided to the City Clerk's Office by our insurance carrier. The submittal of the City's required forms is the "endorsement" required under the terms of the DCBID's contract with the City. Consequently, no exception to Item 11 exists, and the draft report should be amended to reflect this fact.

Item 12 – Expenses relating to Program Services. We recognized administrative revenue for services provided to Historic Center Business Improvement District for the administrative and accounting functions. That revenue was only for the administrative function. All safety and maintenance service costs incurred for HCBID were pass-thru only and reimbursed at no additional cost. All expenses were classified as safety personnel and maintenance services. Consequently, no exception to Item 12 exists, and the draft report should be amended to reflect this fact.

Item 13 – Check disbursements, Separation of Duties, Life Insurance Payment, Phone Payments. We are in the process of locating 2009 activity which includes the missing 11 check disbursements. With a small finance team, separation of duties is a constant work in progress. Over the past several years we implemented numerous procedures to minimize the risk, including, but not limited to, bank reconciliation preparation, journal entry approval, check disbursement approval and general ledger



review. We are also in the process of putting into place a comprehensive Electronic Funds Transfer (EFT) procedure to ensure proper transfer of funds. Additionally, based on the volume of check activity over this five year reviewed period, this is a very minuet portion of disbursements and NO inappropriate payments were made. Consequently, no exception to Item 12 exists, and the draft report should be amended to reflect this fact.

As demonstrated above, all exceptions alleged in the draft report have been explained or cured and the final report should reflect the fact that no ongoing exceptions remain. We are disappointed that our teams did not have the opportunity to work through all of the open issues together before an erroneous draft report was circulated, and we now request your written (a) assurance that the final report will incorporate the responses set forth in this letter and its attachments or (b) explanation of any still open issue and the deadline for our provision of additional materials.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Chodorow", written in a cursive style.

Jeff Chodorow, CPA

Director of Finance

Downtown Center Business Improvement District



DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT  
COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 2012

	A	B	C	D = (C - B)	E
	BUDGETED ITEMS PER CONTRACT	BUDGETED ITEMS JAN-NOV	ACTUAL EXPENSES JAN-NOV	VARIANCE/ACTUAL EXPENSES OVER (UNDER) BUDGET	ACTUAL REVENUE V.S. ACTUAL EXPENSES
				AMOUNT	%
REVENUE					
ROLLOVER FROM 2011	\$ 826,827				\$ 5,544,039
ASSESSMENT REVENUE	6,816,198				10,189
PROGRAM SERVICE REVENUE	-				\$ 5,554,228
INVESTMENT REVENUE	\$ 7,643,025				
TOTAL REVENUE					
EXPENSES					
CLEAN & SAFE PROGRAM	\$ 4,071,614	\$ 3,732,313	\$ 2,732,995	\$ (999,318)	\$ 2,732,995
COMMUNICATION	1,715,892	1,572,901	1,196,332	(376,569)	\$ 1,196,332
ADMINISTRATION	1,004,369	920,672	981,651	60,979	981,651
SPECIAL PROJECTS	24,323	22,296	-	(22,296)	-
TOTAL EXPENSES	\$ 6,816,198	\$ 6,248,182	\$ 4,910,978	\$ (1,337,204)	\$ 4,910,978
EXPENDITURES IN EXCESS OF REVENUE					\$ 643,250

(1,337,204)

UNDERSPENT BUDGET as of November 30, 2012

## FOR CONDITION #13

DOWNTOWN CENTER BID

MISSING SUPPORTING DOCUMENTS

JAN 2008 THROUGH NOV 2012

	DATE	REF #	AMOUNT
MICHAEL ANTONIO	3/26/2012	CR000010	\$2,500.00
PETTY CASH	9/26/2012	CK 3661	\$1,000.00
FIX AUTO DOWNTOWN LA	7/15/2012	CK 3399	\$1,604.36
WILDER	6/8/2012	CK 3310	\$1,639.59
COSTAR REALTY	3/8/2012	CK 3052	\$720.04
2010 DCBID BONUS	3/14/2011	GJ 415	\$18,051.09
CALIFORNIA CLUB	12/29/2011	GJ 6	\$1,000.00
EXECUTIVE U CARE	1/21/2010	GJ 1769	\$2,981.07
BLUE CROSS	1/23/2010	GJ 1745	\$2,153.75
VISA	2/16/2010	GJ 1893	\$3,299.54
VISA	3/31/2010	GJ 1953	\$25,000.00
OTHER			\$291.95
<b>TOTAL:</b>			<b><u>\$60,241.39</u></b>

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION  
DOWNTOWN CENTER PROPERTY AND BUSINESS IMPROVEMENT DISTRICT**

**FOR THE PERIOD JANUARY 1, 2008  
THROUGH NOVEMBER 30, 2012**

## **Review of Compliance**

### **Downtown Center Business Improvement District Management Corp. Downtown Center Property and Business Improvement District**

#### **BACKGROUND**

The Downtown Center Property and Business Improvement District (DCPBID) receives funds from special assessments on parcels of real property within the district that benefit from proposed improvements and activities. The amount of assessment placed on each parcel reflects the relative special benefit that parcel will derive from the DCPBID services.

DCPBID shall provide: a) Clean and Safe Program Services that includes Business Improvement District Safety Program; Downtown ambassadors; Community Service ambassadors and General Maintenance to cover among others, sidewalk maintenance; alley maintenance; graffiti removal, sidewalk washing and machine scrubbing; paper and handbill removal; trash collection; weed abatement and freeway underpasses maintenance; b) Communication , Marketing and Development Program Services to include: distribution of newsletters, public relations materials, maps, setting up of information kiosks; maintenance of web site; property owners communication and relations; special events; media relations advertising and business recruitment and retention activities; c) Special Projects, determined as opportunities arise that aims to benefit the District property owners and reinforce the uniqueness of DCPBID. d) Advocacy and Administration. District activities will be managed by a professional manager assisted by centralized administrative support. Staff support will actively advocate on behalf of the property owners, business owners and residents to insure that City and County services and policies support the DCPBID.



## **Review of Compliance**

### **Downtown Center Business Improvement District Management Corp. Downtown Center Property and Business Improvement District**

**Review Scope and Objectives:** We performed a review of DCPBID fiscal operations to identify areas of, compliance or non-compliance with policies, procedures, rules and regulations in the following areas:

- a) To determine if Downtown Center Business Improvement District Management Corporation (Corporation) is operating and abiding by the terms of agreement C-113000 in administration of the Downtown Center Property and Business Improvement District. (DCPBID)
- b) To determine if Corporation is operating and spending assessment funds pursuant to the requirements of the Management District Plan for the DCPBID for all parcels for whom an assessment is levied upon.
- c) To determine if Corporation is abiding by Generally Accepted Accounting Principles.

### **Review Steps**

- 1. Prepared spreadsheets and listed Budget vs. Actual amount listing the variances.
- 2. Reviewed Budget variances.
- 3. Reviewed Bank Reconciliation(s).
- 4. Traced all amounts from financial reports to the General Ledger.
- 5. Reviewed General Ledger details .
- 6. Selected items for detailed testing.
- 7. Verified that items tested were in compliance with Management District Plan , contract agreement and the approved budget.
- 8. Listed all discrepancies.
- 9. Compared outside auditor's reviewed Financial Statements with General Ledger.
- 10. Reviewed all variances and discrepancies with management.
- 11. Verified Revenue collected.
- 12. Verified that invoices submitted were collected or amounts traced to General Ledger.

## **Review of Compliance**

### **Downtown Center Business Improvement District Management Corp. Downtown Center Property and Business Improvement District**

13. Obtained newsletter and reviewed documents that has an impact on the scope of work for which we were contracted.
14. Reviewed board minutes, signed contracts and other relevant documents relating to the sample selected.
15. Photocopied documents with issues or exceptions.
16. Obtained Management Development Plan and/or budget approved by the City.
17. Obtained all applicable policies and procedures.
18. Drafted Report and conducted Exit Conference.
19. Reviewed report with Management and City of Los Angeles.
20. Cleared all open items.
21. Prepared and distributed Final Report.

The management of DCPBID is responsible for complying with the terms of the contract. Our responsibility is to report and describe our findings and make recommendations based upon our review.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
DOWNTOWN CENTER PROPERTY AND BUSINESS IMPROVEMENT DISTRICT  
REPORT ON FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD JANUARY 1, 2008 THROUGH NOVEMBER 30, 2012**

**PROGRAM IMPLEMENTATION AND OPERATION**

**1    Criteria or Specific Requirements**

“Corporation shall be fully responsible for developing, implementing, directing, and operating the District programs, improvements or activities as described in the Management District Plan set forth in Attachment 1, attached hereto and incorporated fully by reference. Corporation understands and expressly agrees that it will comply with all applicable laws and regulations and maintain its non-profit status for the duration of this agreement.”

**Condition**

We noted no exception.

**PROGRAM AND BUDGET REPORTS**

**2    Criteria or Specific Requirements**

“Corporation shall prepare and submit to the City Clerk quarterly activity reports and a planning report for each year for which Assessments are to be levied and collected by City. Corporation shall submit to the City Clerk various District program plans and reports, including the Planning Reports and Quarterly Activity Reports.”

**Condition**

We noted no exceptions.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
DOWNTOWN CENTER PROPERTY AND BUSINESS IMPROVEMENT DISTRICT  
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**FINANCIAL STATEMENTS**

**3     Criteria or Specific Requirements**

“For each fiscal year, Corporation shall submit to the City Clerk a full disclosure financial statement covering the fiscal year with a Certified Public Accountants’ review report. Corporation shall include with its financial statement a report of Corporation’s activities, including but not limited to those activities listed in the Planning Report for that fiscal year. The first financial statement shall be submitted to the City Clerk by May 1, 2009, and by May 1 of each subsequent fiscal year.”

**Condition**

We noted no exception.

**LIAISON WITH COMMUNITY**

**4     Criteria or Specific Requirements**

“Corporation shall maintain an ongoing liaison relationship with the community. Corporation’s responsibilities encompass the following areas: A) Public Meetings B) Newsletters C) Other Events

**Condition**

We noted no exception.



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**BUDGET**

**5    Criteria or Specific Requirements**

“Each program, improvement or activity specified in the Management District Plan, and as described in section 36622 of the Act, or the Planning Report, shall be implemented by Corporation. Corporation and City agree that amounts shown in the Management District Plan or the Planning Reports were the best estimates of the cost of those programs, improvements or activities at the time those estimates were made. Deviations from those estimates are to be anticipated. City and Corporation also agree that the programs, improvements and activities may not be completed within the year budgeted, given normal delays that can be expected in these types of programs. Corporation will use its best efforts to implement and complete all programs, improvements and activities specified in the Management District Plan. However, it is possible that Corporation may not actually expend the precise amount budgeted for any one identified program, improvement or activity. A ten percent (10%) deviation in a budget line item will not be considered significant. If deviation in a budget line item exceeds 10%, or if Corporation decides to make budget allocation changes that exceed 10% of the total budget for all programs, improvements, and activities, and such changes would, in the opinion of the City Clerk, adversely impact the benefits received by the assessed property owners in the District, Corporation will request City Council authorization to modify the programs, improvements and activities to be funded pursuant to Section 36636 of the Act. However, in no event may Corporation spend more than the total amount budgeted in the Management District Plan for any given year, including delinquent payments, interest income, and rollover funds, without City Clerk or City Council approval.”

**Condition**

We noted that the Downtown Center Property and Business Improvement District had budget variances (Exhibits I-V) as follows:

- Five instances of spending in excess of 10% were noted on Exhibits I, II and III. The overage ranged from 17% to 53% per specific budgeted line item.

**Questioned Costs**

Not applicable

**Effect**

DCBIDMC could be out of compliance with the terms of the contract.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
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**Cause**

Management believes programs and activities implemented were significant for the development of the District despite the lower fund allocations for those activities.

**Recommendation**

We recommend that a quarterly review of the operations be conducted by management to determine whether there are changes that could be made in the program fund allocations. Thereby requesting City Council's authorization to modify programs, improvements and activities to be funded.

**ASSESSMENT RECORDS**

**6 Criteria or Specific Requirements**

"Corporation shall maintain a complete database or other comprehensive listing, current to the most recent property tax year available. "

**Condition**

We noted no exception.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
DOWNTOWN CENTER PROPERTY AND BUSINESS IMPROVEMENT DISTRICT  
REPORT ON FINDINGS AND RECOMMENDATIONS  
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**RETENTION OF RECORDS, AUDIT AND REPORTS**

**7 Criteria or Specific Requirements**

7.1 "In accordance with generally accepted accounting principles, Corporation shall maintain full and complete records of activities and services performed under this Agreement, in their original form. Such records shall be open to the inspection of City and City may audit such records. Corporation agrees to keep all such records on file in a secure location for a minimum of three (3) years subsequent to the expiration of this Agreement."

7.2 "The records maintained by Corporation shall include, but shall not be limited to, all invoices and receipts for District related expenditures incurred and must include supporting documentation for the activities or programs described in the District budget or Management District Plan. City reserves the right to perform a contract compliance audit at least once annually. Corporation shall provide any records or reports requested by the City regarding performance of this Agreement. Corporation agrees to keep all receipts and other supporting documents available for inspection and as specified in Section 7.1 of this Agreement."

**Condition**

We noted that there were no vouchers presented for review for 2009 except payroll records.

**Questioned Costs**

Not determinable.

**Effect**

DCBIDMC could be out of compliance with the BID requirement.

**Cause**

Management could not locate the files as of our review date.

**Recommendation**

We recommend that books and accounts and records be kept on file in a secured location for a minimum of three (3) years subsequent to the expiration of this Agreement to be in compliance with the terms of the contract.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
DOWNTOWN CENTER PROPERTY AND BUSINESS IMPROVEMENT DISTRICT  
REPORT ON FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD JANUARY 1, 2008 THROUGH NOVEMBER 30, 2012**

**PERMITS**

**8    Criteria or Specific Requirements**

“The Corporation and its officers, agents and employees shall obtain and maintain all licenses, permits, certifications and other documents necessary for the Corporation’s performance hereunder and shall pay any fees required thereof. Corporation certifies to immediately notify the City of any suspension, termination, lapses, non-renewals, or restrictions of licenses, permits, certificates, or other documents.”

**Condition**

We noted no exception.

**SERVICE PLAN**

**9    Criteria or Specific Requirements**

The following are the services described in the management district plan:

1.    Clean and Safe Program
2.    Communication, Marketing and Development
3.    Special Projects
4.    Advocacy and Administration

**Condition**

We noted no exception.



**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
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**OTHER REQUIREMENTS**

**10 Criteria or Specific Requirements**

“Identify services that are completed through employees of the non profit organization, vendors contracting with the non profit organization, agreement by memorandum with a reciprocating service organization or some other form of agreement.”

**Observation**

We noted that the Services , Equipment and Space Sharing Agreement with Central City Association of Los Angeles, a related party of DCBIDMC has not been renewed for 2012. However, as of date of this report, the Agreement was renewed.

**11 Criteria or Specific Requirements**

“During the term of this Agreement and without limiting Corporation’s indemnification of the City, Corporation shall provide and maintain at its own expense a program of insurance having the coverages and limits customarily carried and actually arranged by Corporation but not less than the amounts and types listed on Form General 146/IR.”

**Observation**

We noted that although we received a copy of the Corporation’s Insurance coverage, the copy submitted for review did not list the City of Los Angeles as an additional insured.

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**12 Criteria or Specific Requirements**

“Identify services that are provided to parcels outside the District for a separate cost or through a separate source of revenue other than assessment revenue.”

**Observation**

We noted that in addition to interest income, DCPBID had investment income, income from disposal of property and equipment and Program Service Revenue.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
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**13 Criteria or Specific Requirements**

"The accounting practices of the Corporation should be in accordance with Generally Accepted Accounting Principles."

**Condition**

We noted the following:

1. Check disbursements were not properly supported in four instances for 2010, two instances in 2011 and five instances in 2012.
2. In the purchasing function, there was no separation of duties in two instances.
3. Life Insurance payment was recorded under Medical Insurance.
4. In one instance, although allowable cost, there was no indication that payments made by phone were approved.

**Questioned Costs**

\$60,241.39

**Effect**

The DCBIDMC could be out of compliance with Generally Accepted Accounting Principles, therefore weakening the Corporation's internal control.

**Cause**

1. Most of the expenses not adequately supported were paid by a related party and the items were reimbursements.
2. Management stated that the Division head was absent during that time.
3. Management stated that there was no Life Insurance expense in the Chart of Accounts.
4. Management stated that the payment was approved.

**Recommendation**

We recommend that Management take the following actions:

1. Require proper supporting documents before disbursement of checks.
2. Obtain approval from the next ranking Officer whenever the Division Manager is absent.
3. Provide a Chart of Accounts for specific expenses.
4. Set up a procedure to document approval of expenses made by phone.
5. Reimburse the City of Los Angeles for all the Questioned Costs.

**DOWNTOWN CENTER BUSINESS IMPROVEMENT DISTRICT MANAGEMENT CORP.  
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We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Los Angeles, the Downtown Center Property and Business Improvement District 's Management and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California  
December 29 , 2012